

POLSKI KONCERN NAFTOWY ORLEN S.A.

**CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
3 MONTH PERIODS ENDED
31 MARCH 2004 AND 31 MARCH 2003
PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS**

POLSKI KONCERN NAFTOWY ORLEN S.A.
CONSOLIDATED CONDENSED BALANCE SHEETS
As of 31 March 2004 and 31 December 2003

	31 March	31 December
	2004	2003
	(unaudited)	
	(in PLN million)	
ASSETS		
Non-current assets		
Property, plant and equipment	9,757	9,807
Negative goodwill	(267)	(273)
Intangible assets	119	121
Financial assets	555	534
Investments accounted for using equity method	490	493
Deferred tax assets	14	15
Other non-current assets	16	18
	-----	-----
Total non-current assets	10,684	10,715
	-----	-----
Current assets		
Inventories	3,148	3,058
Trade and other receivables	2,937	2,513
Income tax receivables	8	65
Short-term investments	122	67
Deferred costs	103	80
Cash and cash equivalents	584	562
Other financial assets	70	89
	-----	-----
Total current assets	6,972	6,434
	-----	-----
Total assets	17,656	17,149
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Shareholders' equity		
Common stock	534	534
Capital reserve	1,359	1,359
Hedge accounting-cash flow hedges	(17)	-
Revaluation reserve	856	856
Foreign exchange difference on subsidiaries	66	62
Retained earnings	7,096	6,699
	-----	-----
Total shareholders' equity	9,894	9,510
	-----	-----
Minority interests	444	427
	-----	-----
Non-current liabilities		
Interest bearing borrowings	2,091	1,836
Provisions	615	616
Deferred tax liabilities	304	293
	-----	-----
Total non-current liabilities	3,010	2,745
	-----	-----
Current liabilities		
Trade and other payables and accrued expenses	3,441	3,231
Income tax liabilities	53	-
Interest bearing borrowings	759	1,195
Deferred income	18	14
Other liabilities	37	27
	-----	-----
Total current liabilities	4,308	4,467
	-----	-----
Total liabilities and shareholders' equity	17,656	17,149
	=====	=====

The accompanying notes are an integral part of these consolidated condensed financial statements

POLSKI KONCERN NAFTOWY ORLEN S.A.
CONSOLIDATED CONDENSED INCOME STATEMENTS
For the 3 month periods ended 31 March 2004 and 31 March 2003

	For 3 months ended 31 March 2004	For 3 months ended 31 March 2003
	(unaudited)	
	(in PLN million)	
Revenue	6,325	4,962
Cost of sales	(5,112)	(3,793)
Gross profit	1,213	1,169
Other operating income	52	188
Distribution costs	(542)	(455)
Administrative expenses	(184)	(209)
Other operating expenses	(34)	(103)
Profit from operations	505	590
Financial income	119	76
Financial expenses	(124)	(163)
Income from investments accounted for using equity method	17	10
Profit before income tax and minority interests	517	513
Corporate income tax	(103)	(152)
Profit after tax	414	361
Minority interests	(17)	(6)
Net profit	397	355
Basic earnings per share for the period (in zloty per share)	0.93	0.84

POLSKI KONCERN NAFTOWY ORLEN S.A.
CONSOLIDATED CONDENSED CASH FLOW STATEMENTS
For the 3 month periods ended 31 March 2004 and 31 March 2003

	For 3 months ended 31 March 2004	For 3 months ended 31 March 2003
	(unaudited)	
	(PLN)	
Cash flows from operating activities		
Net profit for the period	397	355
Adjustments for:		
Minority interests	17	6
Net income from investments accounted for under equity method	(17)	(10)
Depreciation and amortisation	304	303
Interest and dividend charges, net	(47)	(14)
Income tax on current period profit	103	152
Loss on investing activities	13	-
(Increase) in receivables	(394)	(366)
(Increase) in inventories	(96)	(358)
Increase in accrued expenses and payables	353	290
(Decrease) / Increase in provisions	1	(13)
Other adjustments	24	(23)
Net income tax paid	(54)	(66)
	-----	-----
Net cash flows from operating activities	604	256
	-----	-----
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	(322)	(233)
Proceeds from sales of property, plant and equipment	22	4
Proceeds from sales of available for sale investments	-	2
Acquisition of investments available for sale and entities accounted for under equity method	(11)	(22)
Acquisition of business in Germany, net of cash acquired	-	(419)
Acquisition of short-term securities	(283)	(13)
Proceeds from sales of short-term securities	229	8
Dividends and interest received	3	1
Other	2	(1)
	-----	-----
Net cash flows used in investing activities	(360)	(673)
	-----	-----
Cash flows from financing activities		
Proceeds from long-term and short-term loans and other borrowings	597	1,542
Repayment of long-term and short-term loans and other borrowings	(797)	(609)
Interest paid	(19)	(32)
Other	(3)	(1)
	-----	-----
Net cash flows gained (used) in financing activities	(222)	900
	-----	-----
Net increase/(decrease) in cash and cash equivalents	22	483
	-----	-----
Cash and cash equivalents at the beginning of the period	562	178
	-----	-----
Cash and cash equivalents at the end of the period	584	661
	=====	=====

The accompanying notes are an integral part of these consolidated condensed financial statements

POLSKI KONCERN NAFTOWY ORLEN S.A.
CONSOLIDATED CONDENSED STATEMENTS OF CHANGES IN EQUITY
For the 3 month periods ended 31 March 2004 and 31 March 2003
(PLN million)

	Common stock	Capital reserve	Hedge accounting- cash flow hedges	Revaluation reserve	Foreign currency translation	Retained earnings	Total shareholders' equity
1 January 2003	525	1,174	-	859	-	5,771	8,329
Foreign exchange gain on consolidation	-	-	-	-	25	-	25
Hedge accounting- cash flow hedges	-	-	(5)	-	-	-	(5)
Net Profit	-	-	-	-	-	355	355
31 March 2003 (unaudited)	534	1,174	(5)	859	25	6,126	8,704
	Common stock	Capital reserve	Hedge accounting- cash flow hedges	Revaluation reserve	Foreign currency translation	Retained earnings	Total shareholders' equity
1 January 2004	534	1,359	-	856	62	6,699	9,510
Foreign exchange gain on consolidation	-	-	-	-	4	-	4
Net profit	-	-	-	-	-	397	397
Hedge accounting-cash flow hedges	-	-	(17)	-	-	-	(17)
Other	-	-	-	-	-	-	-
31 March 2004 (unaudited)	534	1,359	(17)	856	66	7,096	9,894

The accompanying notes are an integral part of these consolidated condensed financial statements

POLSKI KONCERN NAFTOWY ORLEN S.A.
NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
for the 3 month periods ended 31 March 2004 and 31 March 2003
(PLN million)

1. Principal activities

The dominant company of the capital group of Polski Koncern Naftowy ORLEN (further referred to as “the Group”) is Polski Koncern Naftowy ORLEN S.A. (further referred to as “the Company”, “PKN ORLEN”) located in Plock, Poland, 7 Chemikow Street.

The Company was established by the Notary Deed of 29 June 1993 as Mazowieckie Zakłady Rafinerijne i Petrochemiczne “Petrochemia Plock” S.A. as a State Treasury owned Joint Stock Company, and registered in the Companies Register in Plock on 1 July 1993. On 20 May 1999 the Company changed its name to Polski Koncern Naftowy S.A. Further, on 12 April 2000 the Company changed its name to Polski Koncern Naftowy ORLEN S.A.

The Company is engaged in the processing of crude oil into a broad range of petroleum products and petrochemicals and in the transportation and wholesale and retail distribution of such products. The other companies in the Group operate primarily in related downstream activities including further production and distribution as well as in production and sales of chemicals.

2. Basis of presentation

The Company applied for these consolidated condensed financial statements International Financial Reporting Standards (“IFRS”) effective for respective accounting periods except for accounting for hyperinflation under International Accounting Standard No 29 “Financial Reporting in Hyperinflationary Economies” (IAS 29), revaluation of fixed assets under International Accounting Standard No 16 “Property, Plant and Equipment” (IAS 16) and recognition of perpetual usufruct of land under International Financial Reporting Standard no 1 (“IFRS 1”) “First-time Adoption of International Financial Reporting Standards”, as explained below.

In 2003 the International Accounting Standards Board has issued IFRS 1, which is effective for financial statements for periods beginning on or after 1 January 2004. In accordance with the pronouncements of IFRS 1 the Company is considered as the first time adopter of IFRS. IFRS 1 requires, among other things that an entity recognises in its financial statements all assets and liabilities whose recognition is required by IFRSs. In accordance with IFRS 1 an entity may elect to measure an item of property, plant and equipment at the date of transition to IFRSs at its fair value and use that fair value as its deemed cost at that date. The Company has not determined fair value as a deemed cost in relation to the fixed assets discussed above, which would result from the requirements of IFRS 1.

Perpetual usufruct rights granted to the Company in the past based on administrative decisions meet the definition of an asset. Accordingly, these perpetual usufruct rights should be recognised in the Company’s financial statements based on fair value. As disclosed in consolidated financial statements for the year 2003 the Company has not recognised previously the above described perpetual usufructs as the historic cost could not be reliably determined. The Company has not performed a fair value estimation of the above discussed perpetual usufructs as it was not practicable.

The measurement and the reporting currency of these consolidated condensed financial statements is Polish Zloty (“PLN”).

Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with IFRS have been condensed or omitted pursuant to International Accounting Standard No 34, “Interim Financial Reporting” (IAS 34). The accompanying consolidated condensed financial statements reflect all adjustments, except for adjustments required by IAS 29 and by IAS 16, of a recurring nature which are necessary for a fair statement of the Company’s consolidated results of operations and cash flow for the periods ended on 31 March 2004 and 31 March 2003 and the Company’s consolidated financial position as of 31 March 2004 and as of 31 December 2003. The accompanying consolidated condensed financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto for the year 2003. The presented financial results are not necessarily indicative of the results of the full year.

The condensed consolidated financial statements reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the consolidated results of operation, balance sheets and cash flows for each period presented.

POLSKI KONCERN NAFTOWY ORLEN S.A.
NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
for the 3 month periods ended 31 March 2004 and 31 March 2003
(PLN million)

3. Selected explanatory notes

3.1. Accounting policies

Accounting policies and methods of computation applied by the Company are included in the annual financial statements issued, with the exception of the effects of IFRS 1 described in Note 2.

3.2. Unusual items affecting the amounts presented in these financial statements

For the 3 month period ended 31 March 2004 there were no unusual items affecting the amounts presented in these financial statements.

3.3. Dividends

In March 2004 Management proposed to pay dividends from 2003 net profit, of PLN 188m (i.e. PLN 0.44 per share).

3.4. Interest bearing borrowings

	31 March	31 December
	2004	2003
	(unaudited)	
Bank loans	2,725	2,918
Other loans and credits	35	36
Short-terms bonds	90	77
	-----	-----
Total, including:	2,850	3,031
	=====	=====
Less short-term portion	759	1,195
Long-term portion	2,091	1,836

The total interest bearing borrowings utilized by the Group decreased by net PLN 181m within 3 month period ended 31 March 2004. The change of debt is result of:

- proceeds from new loans in PLN:
 - 11m in BH w Warszawie S.A.
 - 6m in PeKaO SA
- proceeds from new loan of EUR 60m within Syndicated Agreement*
- proceeds from new loans in PLN in current accounts PLN 185m
- issued short-term bonds PLN 85m
- repayment of foreign currency loans:
 - EUR 25m in PeKaO S.A
- repayment of loans in PLN:
 - 19m in Bank Millenium S.A.
 - 150m in PKO BP S.A.
 - 100m in PeKao S.A.
- repayment of loans in German companies EUR 59m
- redemption of short-term bonds PLN 73m

* The Syndicated Agreement on dual currency loan in the amount of EUR 500m was signed on 29 July 2003. The loan will be repaid in 2008. The loan can be utilized in EUR as well as in USD.

POLSKI KONCERN NAFTOWY ORLEN S.A.
NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
for the 3 month periods ended 31 March 2004 and 31 March 2003
(PLN million)

3.5. Segment data (unaudited)

	Refining and Marketing Segment		Chemical Segment		Other operations		Eliminations		Consolidated	
	for 3 month period ended		for 3 month period ended		for 3 month period ended		for 3 month period ended		for 3 month period ended	
	31 March 2004	31 March 2003	31 March 2004	31 March 2003	31 March 2004	31 March 2003	31 March 2004	31 March 2003	31 March 2004	31 March 2003
Revenues										
External sales	5,197	3,959	953	882	175	121	-	-	6,325	4,962
Inter-segment sales	701	917	317	375	222	274	(1,240)	(1,566)	-	-
Total revenue	5,898	4,876	1,270	1,257	397	395	(1,240)	(1,566)	6,325	4,962
Costs	(5,506)	(4,377)	(1,080)	(1,166)	(361)	(368)	1,238	1,566	(5,709)	(4,345)
Other operating income	30	44	14	128	7	4			51	176
Other operating cost	(17)	(66)	(2)	(9)	(9)	(15)			(28)	(90)
Result										
Segment result	405	477	202	210	34	16	(2)	-	639	703
Unallocated corporate income									1	12
Unallocated corporate expenses									(135)	(125)
Profit from Operations									505	590
Financial income									119	76
Financial expenses									(124)	(163)
Share in profit (losses) of subordinated entities accounted for using equity method	-	(1)	12	9	5	2	-	-	17	10
Profit before Income tax									517	513
Income taxes									(103)	(152)
Minority interests									(17)	(6)
Net profit									397	355

POLSKI KONCERN NAFTOWY ORLEN S.A.
NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
for the 3 month periods ended 31 March 2004 and 31 March 2003
(PLN million)

	Refining and Marketing Segment		Chemical Segment		Other operations		Consolidated	
	for 3 month period ended		for 3 month period ended		for 3 month period ended		for 3 month period ended	
	31 March 2004	31 March 2003	31 March 2004	31 March 2003	31 March 2004	31 March 2003	31 March 2004	31 March 2003
Property, plant, equipment and intangible assets expenditure	96	134	148	62	14	10	258	206
Property, plant, equipment and intangible assets expenditure unallocated to segments							4	6
Total property, plant, equipment and intangible assets expenditure							262	212
Segment depreciation	209	193	57	64	37	44	303	301
Unallocated assets depreciation							9	9
Total depreciation							312	310
Non-cash expenses other than depreciation	13	43	1	6	8	12	22	61

Geographical segments

As the result of long term investments in Germany, beginning from 1 March 2003 the Group operates in Poland and Germany. The following table shows the distribution of the Company's consolidated sales by geographical market segmental reporting for business segments for 3 month periods ended 31 March 2004 and 31 March 2003.

	Refining and Marketing Segment		Chemicals Segment		Other operations		Consolidated	
	for 3 month period ended		for 3 month period ended		for 3 month period ended		for 3 month period ended	
	31 March 2004	31 March 2003	31 March 2004	31 March 2003	31 March 2004	31 March 2003	31 March 2004	31 March 2003
Export Sales	198	153	221	230	7	2	426	385
Domestic sales	3,071	3,163	732	652	168	119	3,971	3,934
Sales by German subsidiaries	1,928	643	-	-	-	-	1,928	643
Total external revenue	5,197	3,959	953	882	175	121	6,325	4,962

POLSKI KONCERN NAFTOWY ORLEN S.A.
NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
for the 3 month periods ended 31 March 2004 and 31 March 2003
(PLN million)

3.6. Basic and diluted earnings per share

	for the 3 month period ended 31 March 2004	for the 3 month period ended 31 March 2003
	(unaudited)	(unaudited)
Weighted average common stock outstanding	427,709,061	420,177,137
Net profit for the period per share (PLN)	0.93	0.84

There is no difference between the basic and diluted earnings per share.

3.7. Changes in contingent liabilities and risks after 31 December 2003

1. On 15 November 2002, based on the act on restructuring of certain budget receivables from enterprises, Rafineria Trzebinia, the Company's subsidiary, applied for the restructuring of budget receivables concerning excise duty and VAT for the period from June to December 1998. On 30 December 2002 fiscal authorities issued a decision on restructuring conditions of payables concerning VAT and excise duty of total value of PLN 35.3m, stating the restructuring charge in the amount of PLN 5.3m. The charge was paid in full in January 2003.

As a result of the audit performed by the Tax Audit Office in Krakow, tax allowance for the months I-XII.1999, I-XII.2000 and I-XII.2001 on VAT concerning production of diesel fuel with component extracted from reprocessed used oil, was questioned. On 22 December 2003 the company received decisions of the Director of Tax Audit Office in Krakow, which stated the additional VAT liability together with penalties in the total amount of PLN 79.8m.

As a result of the above decisions, the Management Board of Rafineria Trzebinia applied to the Tax Office in Chrzanow for partial remission of the liability based on a significant interest of the taxpayer and ambiguous regulations regarding the tax allowance on reprocessing of used oil. The application received a favourable opinion of the Tax Office Jury in Krakow. On 29 December 2003 Rafineria Trzebinia S.A. paid PLN 11.8m of overdue tax liability covered by the decisions of Tax Audit Office Director. On 31 December 2003 the Head of Tax Office in Chrzanow, after obtaining a positive opinion from Tax Office Jury in Krakow, issued a decision, in which the remaining liability of PLN 68m was cancelled. The remaining VAT liabilities were cancelled by the decision of the Head of Tax Office of Malopolska region dated 30 April 2004. Liabilities related to the excise tax resulting from the decision of the Head of Customs Office I were cancelled on 19 April 2004. The restructuring process of remaining tax liabilities of Rafineria Trzebinia S.A. for years 1999-2001 was completed by the decision of the Head of Tax Office in Chrzanow dated 12 March 2004. As at the date of these financial statements Rafineria Trzebinia S.A. had no overdue budget liabilities related to the excise tax or VAT.

2. In accordance with the Agreement signed on 20 December 2002, Tankpol Sp z o.o transferred to PKN ORLEN due to cession, 40% of shares held in ORLEN PetroTank Sp z o.o. in exchange for receivables from Tankpol Sp. z o.o. Final settlement of this transaction should be made after valuation of shares in ORLEN PetroTank Sp. z o.o. On 30 October 2003 a legal case was filed against PKN ORLEN as compensation for PLN 70m or return of the ceded shares. On 26 January 2004 Tankpol Sp. z o.o. modified its claim for repayment of PLN 36m or return of the ceded shares. Together with the claim, Tankpol Sp. z o.o. presented a new valuation of ORLEN Petro Tank Sp. z o.o. amounting to PLN 232m. On 22 January 2004 Tankpol Sp. z o.o. approached Company with a compromise offer, stating, that the claim will be revoked if PKN ORLEN pays PLN 33m. On 18 February 2004 during the first hearing the court suspended the legal proceeding for the period of three months, in order to allow parties to reach a compromise.

POLSKI KONCERN NAFTOWY ORLEN S.A.
NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
for the 3 month periods ended 31 March 2004 and 31 March 2003
(PLN million)

The above claim was not provided as in the Company's Management view, based on the independent legal opinion obtained, the final outcome of the above claim should not have a material impact on the presented financial results.

3. Due to the public information in relation to the Company's purchase transactions, the Supervisory Board has taken actions including requests to audit firms to perform specific test procedures, which were aimed at verifying the above information, including an analysis of the specified procurement transactions. The reports on these procedures have been presented to the Supervisory Board for further analyses. Simultaneously the Management Board filed notifications to the Public Prosecutor's Office regarding a suspicion of a commitment of crimes connected with:
- disclosure of confidential information, included in auditors' reports,
 - violation of the Company's purchase procedures

The final outcome of the above notifications is not known as at the date of the preparation of these financial statements. However, in the Management's opinion, there are no circumstances indicating that the above mentioned matters may materially impact the true and fair presentation of the accompanying consolidated condensed financial statements for the 3 month period ended 31 March 2004.

4. On 20 May 2003, the Management Board of the Company submitted a put option execution declaration for all Niezalezny Operator Miedzystrefowy Sp. z o.o. ("NOM") shares owned by PKN to Polskie Sieci Energetyczne S.A. ("PSE"). The "put" price equals to PLN 111,5m and is calculated as a sum of a par value of the shares sold and a cumulative investment premium calculated according to the Agreement dated 8 June 2000 regulating the cooperation between the NOM shareholders.

On 20 October 2003, PSE filed a suit to the Court of Arbitration of the Polish Chamber of Commerce in Warsaw, regarding the determination of the validity of the shares sales agreement. Up to the date of preparation of these financial statements the legal proceedings in the Court of Arbitration were not commenced.

In the opinion of the Management Board of the Company, based on independent legal analyses, the Company executed its put option and sold NOM shares to PSE. Consequently, the Company recognised on the transaction profit amounting to PLN 27,5m (difference between purchase price of the stakes and the sales price resulting from the put option). According to the Management Board the receivable of PLN 111,5m will be realised in full.

The Court of Arbitration of the Polish Chamber of Commerce in Warsaw fixed the date of first hearing on 3 June 2004.

POLSKI KONCERN NAFTOWY ORLEN S.A.
NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
for the 3 month periods ended 31 March 2004 and 31 March 2003
(PLN million)

3.8. Subsequent events

1. On 29 April 2004 Polski Koncern Naftowy ORLEN S.A. ("PKN ORLEN") received a letter from WestLB a financial advisor to Czech National Property Found ("NPF") and a state agency Ceska Konsolidacni Agentura ("CKA"), which stated that the Czech Government selected PKN ORLEN as the successful bidder in the auction for the 62.99% stake in Czech downstream oil and petrochemicals group, Unipetrol a.s. ("Unipetrol") held by the NPF. Therefore PKN ORLEN will also acquire associated receivables toward some of the Unipetrol Group companies and a 9.76% stake in Unipetrol's producing subsidiary, Spolana a.s. ("Spolana"), held by CKA. PKN ORLEN agreed to pay approx. CZK 11.3 billion for the 62.99% stake in Unipetrol, CZK 1.0 million for CKA's 9.76% stake in Spolana and approx. CZK 1.7 billion for CKA's receivables with a total nominal value of approx. CZK 3.1 billion and EUR 9.5 million, and USD 4.9 million, as of April 1, 2004. Following the acquisition of the NPF's stake in Unipetrol and in accordance with Czech law, PKN ORLEN will launch a mandatory tender offer to acquire the interests of minority shareholders in Unipetrol and its listed subsidiaries. PKN ORLEN has agreed on the basis of the agreements with ConocoPhillips Central and Eastern Europe Holdings B.V., one of the major oil and gas worldwide companies ("ConocoPhillips") and Agrofert Holding, a.s., the second largest chemicals group in the Czech Republic ("Agrofert"), to procure as a majority shareholder in Unipetrol the sale by Unipetrol of some of Unipetrol's assets to ConocoPhillips and to Agrofert, after successful completion of the privatization process. A large portion of the funds for the financing of the above transaction is already provided in the form of the currently available credit facilities. The reminder will be arranged within the time periods indicated in the payment schedules relating to the transaction. Management believes that the completion of the transaction should not result in any violation of any covenants under the syndicated credit facility agreement. Some banks have already offered PKN ORLEN their assistance in financing the transaction in question. PKN ORLEN will provide investors with more details on this transaction upon signing of Share Sale and Purchase Agreement with NPF. The transaction is expected to close by the end of the third quarter of 2004, once necessary Czech regulatory approvals have been granted.
2. On 30 April 2004 the Management Board made public the joint statement of MOL and PKN ORLEN on their talks advancement. On 20 November 2003, MOL and PKN ORLEN signed a Memorandum of Understanding initiating exclusive negotiations to evaluate the potential merits of closer cooperation between the two companies. The Memorandum of Understanding provided for an initial period of exclusive consultation between MOL and PKN ORLEN in respect of the potential co-operation. The comprehensive analysis conducted jointly during the recent months has clearly indicated to both companies the strong business logic and potential for cooperation. The parties have made substantial progress on the creation of an agreed, detailed cooperation framework, but further discussions are still required to reach a binding agreement and to secure approvals from all relevant governmental and corporate bodies. Cooperation between the parties which has started on the basis of the Memorandum of Understanding will be continued upon the progress made so far.
3. On 16 April 2004 the Management Board of PKN ORLEN informed that it has withdrawn from submitting a binding offer to purchase shares of SNP Petrom S.A. PKN ORLEN is currently involved in a number of M&A processes in the oil and gas sector in Central Europe. PKN ORLEN had requested twice the Romanian Government to extend the deadline of the submission of the binding offers due to the need to conduct further, in-depth analysis, with respect to the impact of these processes on PKN ORLEN's participation in the privatization of SNP Petrom. However, the Romanian Government decided not to extend the current deadline of 15 April 2004.

POLSKI KONCERN NAFTOWY ORLEN S.A.
NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
for the 3 month periods ended 31 March 2004 and 31 March 2003
(PLN million)

3.9. Operating costs

	3 months ended 31 March 2004 (unaudited)	3 months ended 31 March 2003 (unaudited)
Raw materials and energy	2,598	2,766
Cost of goods for resale*	2,259	893
External services	401	357
Payroll and benefits (staff costs)	256	246
Depreciation and amortisation	312	310
Taxes and charges	84	89
Other	61	138
	-----	-----
	5,971	4,799
Adjusted by:		
Change in inventories, deferred and accrued costs	(77)	(213)
Cost of products and services for own use	(22)	(26)
	-----	-----
Operating costs	5,872	4,560
	=====	=====

* Activity acquired in Germany has been consolidated from 1 March 2003 when it was acquired. This results in costs of goods for resale and materials for the 3 month period ended 31 March 2004 not being comparable to the period ended 31 March 2003.

POLSKI KONCERN NAFTOWY ORLEN S.A.
NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
for the 3 month periods ended 31 March 2004 and 31 March 2003
(PLN million)

3.10. Transformation for International Financial Reporting Standards purposes

The adjustments to the consolidated condensed financial statements prepared under Polish Accounting Standards (PAS) are presented below:

	Net profit for 3 months ended	Net profit for 3 months ended
	31 March 2004	31 March 2003
	(unaudited)	(unaudited)
PAS basis consolidated	382	367
Borrowing costs capitalisation, less depreciation	(14)	(10)
Amortisation of CPN goodwill	(3)	(3)
IFRS treatment of negative goodwill	4	4
Deferred tax on the above	3	1
Change of accounting standards (PAS)	26	-
Other	(1)	(4)
	-----	-----
IFRS consolidated	397	355
	=====	=====

	Net assets as of	
	31 March 2004	31 December 2003
	(unaudited)	
PAS basis consolidated	9,525	9,130
Borrowing costs capitalisation, net of depreciation	444	458
CPN goodwill, net of depreciation	59	62
IFRS treatment of negative goodwill	(50)	(54)
Deferred tax on above	(84)	(87)
Other	-	1
	-----	-----
IFRS consolidated	9,894	9,510
	=====	=====

In accordance with PAS, revenues and selling expenses include excise tax and fuel fee (the fuel fee was introduced from 1 January 2004) charged by the Company and its subsidiaries on the products subject to these taxes.

For the purpose of these consolidated financial statements prepared under IFRS revenues and selling expenses had been presented net of excise tax of PLN 2,191m and net of fuel fee of PLN 120m for the 3 month period ended 31 March 2004. For 3 months period ended 31 March 2003 revenues and selling expenses had been presented net of excise tax of PLN 2,018m.

POLSKI KONCERN NAFTOWY ORLEN S.A.
NOTES TO THE CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
for the 3 month periods ended 31 March 2004 and 31 March 2003
(PLN million)

3.11. Other

The consolidated financial statements have been authorised by Company's Management Board at premises of the Company, on 11 May 2004.

SIGNATURES OF THE MEMBERS OF THE MANAGEMENT BOARD

.....
President - Zbigniew Wrobel

.....
Vice President - Slawomir Golonka

.....
Member of the Board- Krzysztof Kluzek

.....
Vice President - Andrzej Macenowicz

.....
Vice President – Jacek Strzelecki

.....
Vice President – Janusz Wisniewski